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# *Flying Hour Program (FHP) Cash Management at Commander Naval Air Forces Pacific (CNAP)*

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## INTRODUCTION

The Flying Hour Program (FHP) is the vehicle by which the Department of the Navy (DoN) budgets and allocates annual funding for the operation and maintenance of Navy and Marine Corps aircraft. The FHP represented over $3.2 billion of the Navy's FY 2000 Operations and Maintenance, Navy (O&M, N) appropriation (Department of the Navy, 2000). Forty-eight percent of the FHP is allocated to the Commander Naval Air Forces Pacific (CNAP) and the majority of the remainder is allocated to the Commander Naval Air Forces Atlantic (CNAL). CNAP and CNAL are the two active duty Air Type Commanders (TYCOMS).

Despite the last four years of increased defense spending, the FHP, like many programs in DoD, has faced stringent budgets and limited resources. These restraints correspond to an overall decline in dollars and tightening top line controls over the last decade. As a result, program managers have faced difficult decisions in budget execution, attempting to satisfy operational requirements with scarce dollars.

### FHP CHAIN OF COMMAND

The dynamic environment of the FHP requires the participation of multiple Navy, Marine Corps, and DoD organizations. Two main functional chains of command exist to oversee the operation and financing of the FHP. The operational chain (depicted in Figure 1, gives direction for the daily mission tasking for all Navy and Marine Corps aircraft). This chain illustrates the flow of authority from the President to the Squadron Commander. Organizations within the operational chain provide input for consideration in budget formulation, but have a minimal role in formal budget development. The financial chain, depicted in Figure 2, illustrates the flow of the FHP budget process.

### BUDGET FORMULATION

The primary FHP budget exhibit is the Operational Plan 20 (OP-20). The N-78 staff constructs the necessary FHP budget exhibits and works closely throughout the year with the major claimants such as Commander in Chief Pacific Fleet (CINCPACFLT) and Air Type Commanders (TYCOMs) such as Commander Naval Air Forces Pacific (CNAP). The N78 staff receives the necessary budget inputs required for assembling and justifying the annual budget funding requirements. Figure 2 illustrates these budget inputs in relation to the financial organization. The three input mechanisms used at the squadron, air station, and N-78F levels are the Budget OPTAR Report (BOR), the Flight Hour Cost Report (FHCR), and the OP-20 FHP budget exhibit. (Keating and Paulk, 1998) The BOR and the FHCR are the primary financial management inputs used at CNAP to administer and track FHP obligations during the fiscal year. These reports collectively form the data used by N-78F to build new OP-20 budget exhibits.

CNAP plays an important role in FHP budget formulation by representing the flying hour users' needs and articulating the difficulties to the resource sponsor (N-78) in executing the FHP budget. The CNAP budget formulation

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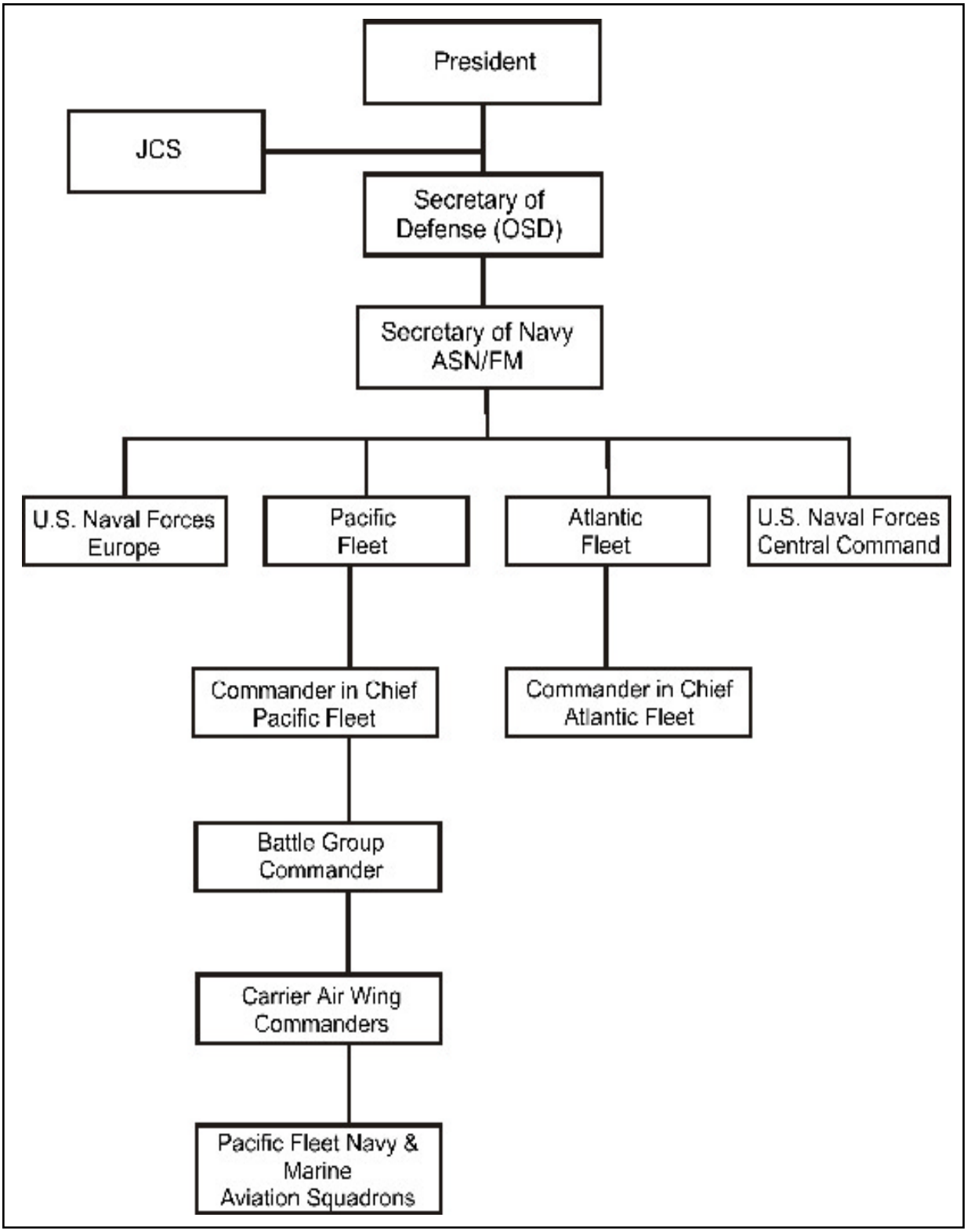


**Figure 1.—Pacific Fleet FHP operational chain of command.**

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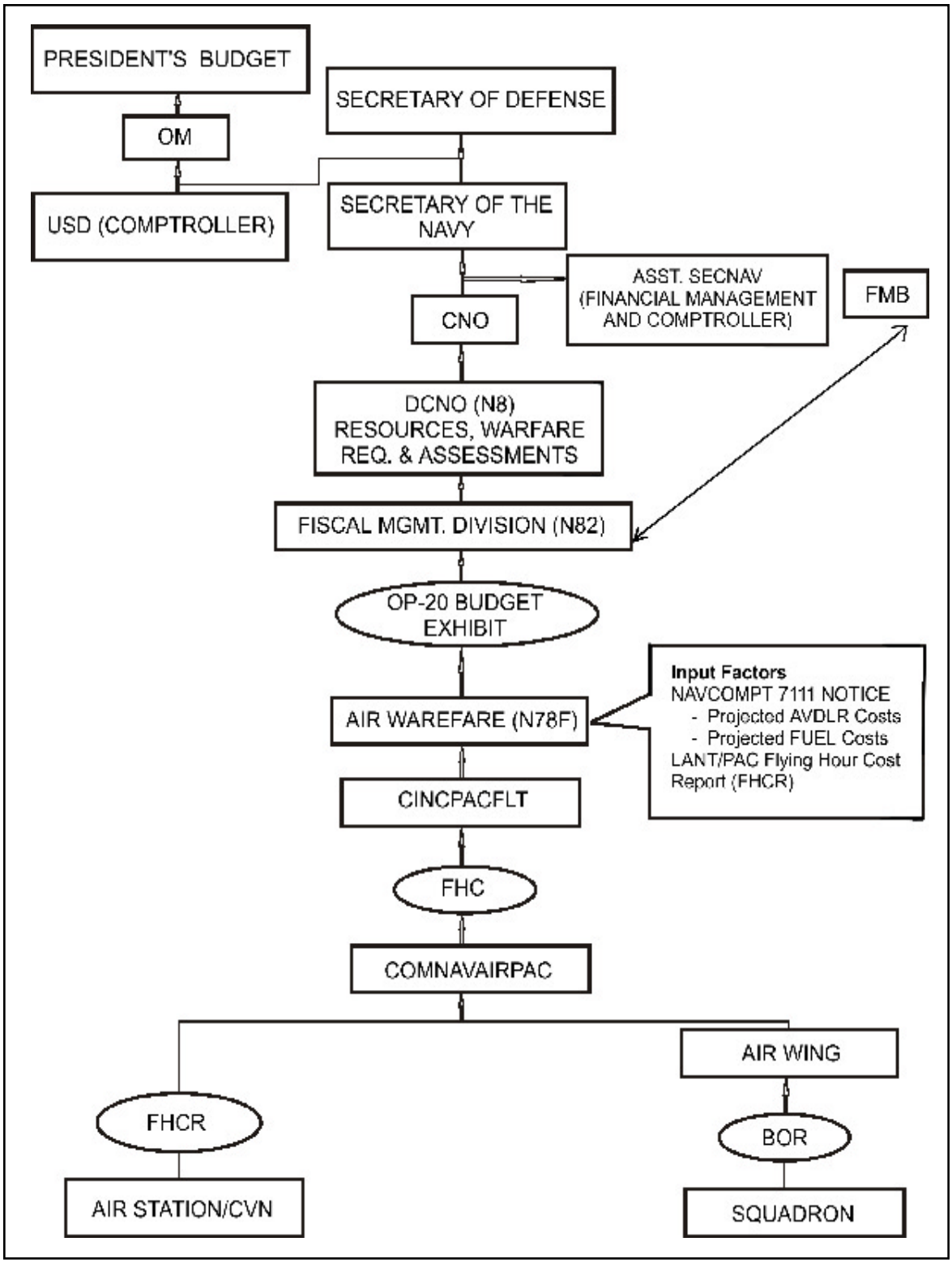


**Figure 2.—FHP financial organization and budget inputs.**

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role consists of two activities: (1) collecting and reporting FHP execution data and (2) developing FHP program and budget submissions. (Keating and Paulk, 1998)

**BUDGET ALLOCATION**

CNAP is the focal point for allocating, executing, and monitoring flight hour funding for all Navy and Marine Corps Pacific fleet squadrons. Their primary goal and responsibility during allocation and execution is to achieve a specific level of readiness for each squadron within the constraints of the available resources. ("*Flying Hour Program (FHP) Desktop Procedures Guide,*" 1996)

The allocation of FHP funding begins at the start of the new fiscal year when the Office of Budget (FMB) distributes quarterly allocations of the approved FHP funding to CNAP in the form of an Operating Budget (OB). The FHP OB, in theory, should provide the necessary dollars to execute CNAP's flying mission. With restricted DoD budgets and competing priorities, financial resources are scarce. Thus, the funds requested during budget formulation seldom actually match those required by CNAP to execute the FHP program. Therefore, CNAP's greatest challenge during allocation is to distribute these funds in such a way that will allow squadrons to achieve mission readiness while avoiding over obligation of FHP funds. (Keating and Paulk, 1998) CNAP's primary tool for distributing flight hour funds is through the Navy Operational Plan 20 (OP-20). The OP-20 serves as a budgeting formulation document and an execution-monitoring tool. During budgeting, the OP-20 displays funding requirements by aircraft type, model, series (T/M/S) and becomes the Navy's primary budget exhibit displaying the FHP funding requirements during submission and review to the Office of the Secretary of Defense (OSD) and the Office of Management and Budget (OMB).

By using the OP-20, the CNAP FHP manager and comptroller decide how to allocate flight hours to each squadron, air wing, and aircraft-owning activity, taking into account deployment schedules and training requirements. (Keating and Paulk, 1998)

In distributing funds to squadrons and air stations, the OP-20 serves as a starting point. The Flying Hour Program Division (N01F3) and the Aviation Flight Hour Operations Office (N-3F) share the process of distributing FHP funds. The FHP manager (N01F3) is charged with the overall management of the program, but shares this responsibility with N-3F. N-3F, (also called the FHP Operations Officer (OPS-O)), is responsible for ensuring squadrons are allocated the proper number of flight hours and associated funding levels required to meet the Chief of Naval Operations' (CNO's) readiness goals for aircraft. (Keating and Paulk, 1998) Primary Mission Readiness (PMR) serves as a subjective means to distribute a limited number of flight hour funds among the various activities. PMR is the number of flight hours required to complete all events scheduled on the Training & Readiness Matrix. Completing all events is known as 100 percent PMR. PMR is currently maintained at a Navy wide rate of 83 percent plus 2 percent of the flying hours-performed in aircraft simulators. (Keating and Paulk, 1998)

At CNAP, the OPS-O primarily relies on the OP-20 and the 83 percent PMR goal to distribute flight hours by T/M/S. The OP-20 assists in the allocation of funds to the fleet as it is separated into three schedules to reflect different mission areas. Each T/M/S is funded to a slightly different level of hours and dollar amounts because of differences in operating expenses (for example: jets versus helicopters). These schedules serve as a rough guideline for flight hour OPTAR distribution throughout the fleet. Schedules are introduced as follows. (*FHP Guide*, 1996)

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| Schedule | Mission/Definition |
|---|---|
| A | **TACAIR/ASW** - Carrier air wings, Marine air wings, land and sea based units committed to combat operations funded at 83 percent PMR. This category constitutes the bulk of the Navy/ Marine Corps aviation warfighting capability, which primarily consists of those squadrons capable of executing the "joint strike" and "crisis response" missions in support of the National Military Strategy. (1A1A fund code) |
| B | **FLEET AIR TRAINING (FAT)** - This category (also referred to as Fleet Replacement Squadrons (FRS)), consists of squadrons that train pilots and navigators prior to joining TACAIR/ ASW and Fleet Air Support units. These squadrons are dedicated to training fleet aircrews in each particular type aircraft and are funded at 100 percent student throughput. (1A2A fund code) |
| C | **FLEET AIR SUPPORT (FAS)** - The primary mission of these squadrons is to provide direct and indirect support (including logistics) to Navy and Marine Corps fleet operating units and shore installations. Their funding is based on Naval Center for Cost Analyses (NCCA) methodologies and historical execution. Common mission examples include Carrier-on-Board Delivery, and Search and Recovery. (1A1A fund code) |

The percentage of FHP resources spent for squadrons within the above schedules is indicated in Figure 3.

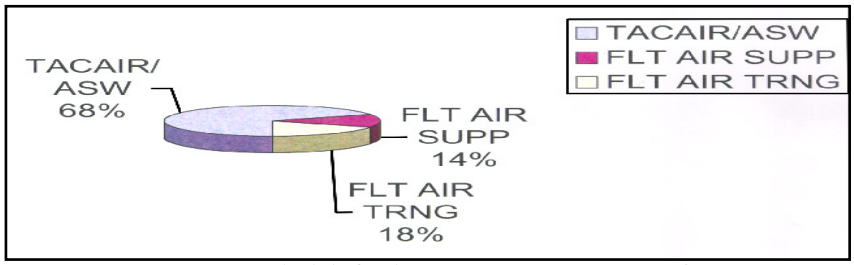


**Figure 3.—FHP schedule funding percentages. ("***FHP Brief***,"** 1998**)**

In conjunction with the OP-20, final distribution of funding to fleet squadrons is calculated by matching squadron flying "activity levels" with the CNO PMR goal of 83 percent. An activity level indicates a phase of employment for a squadron during its 18-month "turn-around deployment cycle."

A turn-around cycle is the 18-month period used for scheduling aircraft deployments, along with all the requisite aircraft and air wing training in preparation for deployment. Flight hour requirements vary at each stage of the turn-around cycle. Air wings are typically funded at the levels shown below:

| | |
|---|---|
| Month 1: Personnel turnover and leave | 40% PMR |
| Months 2-6: Turn-around training | 65% PMR |
| Months 7-10: Turn-around training | 75% PMR |
| Months 11-16: Pre-deployment training | 95% PMR |
| Month 17: Pre-deployment Stand down | 50% PMR |
| Deployment Month 1: | 70% PMR |
| Deployment Months 2-5: | 115% PMR |
| Deployment Month 6: | 60% PMR |

Using the 83 percent PMR goal as guidance, the CNAP OPS-O uses the OP-20 schedule and builds quarterly master flight hour execution plans for each air wing once CINCPACFLT passes the "controls" (fiscal FHP dollar limits) to CNAP. The objective is to attain an overall PMR goal of 83 percent while ensuring squadrons receive necessary funding to fly enough flight hours to meet training requirements. The level of funding and flight hours required varies from the 83 percent PMR baseline depending on squadron location within the turn-around cycle. In the aggregate, an 83 percent PMR level is achieved. In addition to achieving the 83 percent PMR goal, the OPS-O and FHP managers must avoid any over obligation of FHP funds and a resulting 1517 Anti-deficiency Act (ADA) violation. (Keating and Paulk, 1998)

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**BUDGET EXECUTION**

O&M, N funding for the FHP is made available annually, but is provided to the fleet quarterly. Beginning with fiscal year 2002, each Navy and Marine squadron and its supporting air station or ship, if deployed, receives one quarter's worth of flight operation funding from CNAP. These quarterly funds are called Operational Target Functional Categories (OFCs) or commonly known as Operating Targets (OPTARS). An OPTAR represents the anticipated funding level necessary to support the costs of a squadron's flight operations. Receipt of the OPTAR gives the squadron authorization to place obligations against CNAP's FHP funds up to the amount of the issued OPTAR grant. (Keating and Paulk, 1998)

CNAP's monitoring role in FHP execution is to track and review squadron and air station obligations. CNAP does this through the FHCR and BOR costing information reports. These reports serve to:

- Prevent over expenditure of allocated funds
- Ensure funds are used for approved purposes only
- Compare squadron, air wing, and air station readiness, training, and support activities to current on-hand FHP funds
- Identify excess funds for redistribution to other units
- Measure ship/station/squadron budget execution performance
- Support and provide justification for subsequent fiscal year budget inputs and decisions
- Prepare required FHP management control reports (Keating and Paulk, 1998)

Overseeing the distribution of flight hour funds within CINCPACFLT requires a tremendous management effort between the squadrons, air stations, air wing commanders, and the resource sponsor. At any given time, FHP managers are monitoring the execution of five air wings, a dozen air stations, and over 100 squadrons. The final objective is to spread the limited FHP funding across all activities while achieving mission readiness goals and to ensure the proper execution of all allocated funds by the end of the fiscal year. (Keating and Paulk, 1998)

Budget execution is ultimately where the FHP budget is validated to assess whether sufficient funds have been forecasted and allocated to achieve the CNAP flying hour requirements. Because of overall federal budget constraints, competing priorities and limited resources, the final version of the OP-20 often contains less funding than the originally budgeted OP-20. The hope and expectation during the execution year is that the actual FHP cost data are relatively consistent with the budget estimates. However, in recent years, execution costs for CNAP's FHP have exceeded the budgeted estimates. When FMB passes the "controls" (fiscal FHP dollar limits) to CINCPACFLT, there are less resources available than necessary to fully execute the FHP. CINCPACFLT passes additional controls to CNAP reflecting managerial decisions (withholds) that may reprogram FHP funds for other priorities.

The most influential factor creating FHP funding problems is the fact that there are limited resources to fund any program among competing priorities within the DoN. A constrained fiscal environment and other spending priorities often drive unpopular funding decisions. When this occurs, the onus is on CNAP FHP managers and comptrollers to embark upon "creative financing" to try to achieve aviation readiness goals without committing an ADA violation.

**TRENDS IN CNAP'S ANNUAL FHP EXECUTION**

The author of this study conducted personal interviews with past and present staff members at CNAP Headquarters in San Diego, California to gather trends in FHP budget execution over the past three years. The following pages represent the study results.

**Beginning of the Fiscal Year**

CNAP FHP managers start each fiscal year recognizing that there are insufficient funds to continue operations through the end of the year. CNAP continuously updates CINCPACFLT on their money

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position. At the start of the fiscal year, CINCPACFLT's execution philosophy and direction to CNAP is to fly the requirement, making necessary expenditures in order to properly execute the program. As the year continues, the reality at CNAP is that they must fly to the dollars. Table 1 is the initial balance sheet for CNAP's FY 1998 FHP and is indicative of the three years analyzed.

**Table 1.—CNAP's initial FY 98 FHP balance sheet.** (*"FHP Brief,"* 1998)

| | |
|---|---|
| **SHORTFALLS** | |
| Delta (OP-20 vs Controls) | $(116,000,000) |
| Under Pricing and Bow Wave | $(89,000,000) |
| Unfilled Customer Order Buy Back | $(12,000,000) |
| Critical Unfunded Requirements | $(16,000,000) |
| Increased Repairables Cost | $(14,000,000) |
| Reprogramming | $(24,000,000) |
| **Total** | $(271,000,000) |
| **ASSETS** | |
| Contingency Dollars | $40,000,000 |
| Maintenance Efficiency | $30,000,000 |
| USN/USMC Reimbursables | $10,000,000 |
| USN/USMC Supply Credits | $10,000,000 |
| USMC Hours Asset | $18,000,000 |
| **Total** | $108,000,000 |
| **FHP Delta** | $(163,000,000) |

CNAP normally requests a higher percentage of annual funds for the first quarter of the fiscal year in order to "buy back" the previous year's bow-wave. (Bow-waves are discussed later.) For example, CNAP requested 28 percent of the total FHP funds for FY 01 for the first quarter. CNAP is required to provide justification up the chain of command for requesting quarterly funds in excess of 25 percent of annual funding. When CNAP managers determine that there are insufficient funds to continue through the end of a particular quarter, they may request that CINCPACFLT advance money from a later quarter into the current quarter. CINCPACFLT is the custodian for numerous operating funds, including those for the Pacific fleet surface and submarine communities, and may or may not have resources available to advance to CNAP for the FHP. CNAP managers prefer not to request advances from CINCPACFLT unless it is absolutely unavoidable. (interview with FHP staff member, March 2001)

**Reprogramming**

During the execution of FHP funds, several opportunities exist to shift or reprogram FHP dollars. This occurs because of changing priorities and insufficient funding levels for other programs. Reprogramming is designed to give operational and financial commanders increased flexibility to meet unforeseen program changes that may occur during budget execution. With approval from the chain of command, CNAP FHP managers can reprogram up to $15 million between fund codes. (*DoD Financial Management Regulation 7000.14-R, 2000*) They shift money within the FHP from an under-executed account (if one exists) to an over-executed account. In the second quarter of FY 01, CNAP shifted money from TACAIR/ASW (1A1A fund code) to the smaller FAT (1A2A fund code) in order to closeout quarterly budgets in the black. When CNAP managers shift resources between fund codes, often money is moved from 1A1A to 1A2A. The priority resides with the smaller FRS account that provides funding for training replacement pilots and other aircrew. (interview with FHP staff member, March 2001)

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CNAP managers routinely reprogram money from the FHP to the smaller Flying Other (FO) account that has experienced under-funding the past several years. Even though detrimental from a cash management perspective, augmenting some of these programs out of the current year FHP budget is essential. For example, if missile range and/or temporary assignment of duty (TAD) funding is inadequate, squadrons may not be able to achieve the required training because they cannot fully utilize the facilities and pay the travel expenses for people, regardless of the available flight hours. The support programs are integral to achieving the readiness milestones necessary to deploy a combat capable force.

**Quarterly Shortfalls**

CNAP has problems each quarter with requirements exceeding available cash. As the funds provider to operating units, they do not want to order squadrons to stop flying operations because of a cash flow problem. The distribution of funding on a quarterly basis causes CNAP to experience timing issues for incurring liabilities. The problem is similar to a bank obtaining coverage by the federal reserve. The bank knows the money is there, but has not yet received it. As available resources are spent toward the end of a quarter, CNAP managers know that the new quarter's resources will come, but cash has not yet been distributed by CINCPACFLT.

**Execution Philosophy**

During the first seven months of FY 01, CNAP managers' estimates for the current year FHP funding shortfall ranged from $235 to $325 million. The entire shortfall does not manifest all of itself all in the fourth quarter; rather, it appears throughout the year. The CNO directs CINCPACFLT to fly 83 percent PMR and CNAP must determine how to accomplish this aviation readiness goal. They monitor overall daily spending rates and consider timing of employment of the aircraft carriers in the deployment cycle. CNAP managers must make decisions such as how low to deplete flying hours of the two Air Wings at home. Because of funding shortfalls, in a worst-case scenario, they may have to temporarily halt flying operations of squadrons returning from deployment. Part of the job of CNAP managers is to ensure that all of the squadrons among the TACAIR, helicopter, patrol, and other aviation communities equally "share the pain" of under-funding. With the limited funds available and number of reporting units, trying to properly allocate resources to the squadrons throughout the year becomes a huge cash flow juggling act. (interview with FHP staff member, March 2001)

If CNAP managers communicate an impending funding shortfall to the fleet, units may constrain themselves because of money. CNAP managers promote prudent program execution yet avoid constraining fleet flying. The signals that CNAP managers send during execution are very important. Limiting fleet operations because of money shortfalls would artificially reduce the FHP, ultimately misrepresenting its true cash requirements. This would be detrimental because the starting point in budget formulation for future years is what is spent in the current year.

**Challenges with Reporting Units**

Once CNAP managers distribute quarterly funding to the fleet, managing flying hour execution rates and maintenance expenditures is the responsibility of individual squadrons, air stations, and other reporting units. Although managers at CNAP direct fleet units to fly the requirements and not to be constrained by available dollars, some Commanding Officers may view requesting additional funds as a poor reflection on their command. Therefore, command influence at the unit level plays a role in execution. Commanding Officers may attempt to stretch available dollars with various management techniques. Canceling requisitions for aircraft parts, rescheduling training events, or delaying needed aircraft maintenance are methods to temporarily defer costs. With over one hundred different reporting units, there are several different levels of management controlling the execution process and there are different styles within the various units.

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Additional challenges that CNAP FHP managers must contend with include accuracy and timeliness in reporting by units. For example, reporting errors in a unit's 7B (fuel) OPTAR may occur because of calculations with fuel chits, causing unexpected overages or shortages in OFC-01 accounts. CNAP must be extremely careful about overspending their accounts. Because of a lag in reporting obligations, not all costs are captured by the accounting system in the quarter in which they occur. Often bills exist for which CNAP is liable, yet CNAP may be unaware of their existence. CNAP must routinely manage the risk of ADA violations because requirements often exceed final monetary authority.

**Conclusion of the Fiscal Year**

As CNAP managers continue to monitor daily FHP expenditure rates throughout the year, available cash dwindles. They have advanced money as far forward as possible and can now project a date that they will have to completely stop all fleet operations because all money will be expended. This date is usually in early to mid-fourth quarter. To continue operations, managers must rely on funding relief to overcome shortfalls.

As shortfalls are communicated up the chain of command, CNAP money managers monitor progress on potential sources of funding relief to know if and when to order all fleet units to stop spending and cease operations. CNAP managers describe the process as trying to determine "when and how hard to slam on the brakes." (interview with FHP staff member, March 2001)

They do not know if funding relief will be forthcoming, how much it will be, nor when it will occur.

**Funding Relief**

One form of funding relief comes from the distribution of "contingency funds." Contingency funds are appropriated by Congress to offset costs of ongoing "known" operations. An example of known contingency funds were those used to fund Operation Southern Watch (OSW) in Iraq in FY 98. These funds came from the Overseas Contingency Operations Transfer Fund (OCOTF). Once appropriated by Congress and released by OSD, these funds are held by FMB and provided only when fleet operations in direct support of contingencies exceed the appropriated FHP budget. "Unknown" contingency funds are appropriated through emergency supplemental bills to cover unforeseen contingencies. An example of unknown contingency funds were the funds appropriated in July 1998 to cover the unplanned costs of deploying a second aircraft carrier to the Persian Gulf.

Additional sources of funding relief may come from a CNO Reserve (withhold at the CNO level), reprogramming from other accounts within the DoD appropriation (for example from procurement accounts), or Defense supplemental appropriations from Congress.

If units within CNAP are flying high sortie rates in support of contingencies during the first quarter of the fiscal year, they may expend cash faster than is available. This is another case in which CNAP will request to move money forward. CNAP managers describe this as "covering contingencies out-of-hide." They are loaning themselves their own money to pay the cost of contingencies until reimbursed later in the fiscal year. CNAP managers continually attempt to reconcile timing issues associated with the expenditure and receipt of cash.

The Navy mid-year review process affords CNAP managers another opportunity to communicate shortfalls up the chain of command. Following mid-year review, the critical question becomes "will we get the funding relief requested in the mid-year review process from a Defense Supplemental appropriation or some other mechanism toward the end of the fiscal year?" When CNAP does receive funding relief, but the amount received is insufficient to meet requirements, they then scramble to figure out how to make it

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through the end of the year. For example, they conduct "what if" drills of shutting down Air Wings for 30 to 60 days to determine how much they could avoid spending.

**Withholds**

The FHP is the largest financial account that CNAP manages and has been subject to withholds to fix other funding shortfalls. CNAP has no control over these types of "reprioritizations" imposed by higher levels in the chain of command. These actions affect not only the FHP budget, but other O&M, N accounts as well. Budget managers do not know what will be the final withhold or tax that will be levied against their programs, but they monitor discussions in the summer review process. By the time the fiscal year starts and the budget has been received, managers concern themselves with execution, and cannot really influence decisions to tax their program.

Over the past several years CINCPACFLT has withheld money from the FHP account to fund enhanced fleet computer operability with initiatives such as the Navy-Marine Corps Intranet (NMCI), Y2K improvements, and Information Technology for the 21st Century (IT-21). (interview with FHP staff member, January 2001)

**Unanticipated Expenses**

Another challenge in executing the FHP is the annual occurrence of unexpected expenditures. These expenditures are often significant and can cause major fiscal difficulties for CNAP FHP managers. These unanticipated expenses are referred to as "emergent unfundeds." Emergent unfundeds generally arise because of unforeseen maintenance costs associated with reliability problems with aircraft components. The fleet issues maintenance bulletins because of a mishap or inspection that uncovers a defect that may ground an entire aircraft type until the problem is corrected.

The FHP is not resourced to fund these life-cycle costs that require engineering investigations and testing. Often, however, FHP funds are used to pay for repairs to aircraft that have been grounded or "red-striped" when NAVAIR does not have procurement (APN-5) funds available.

Marine Corps AV-8B and H-53 aircraft have recently experienced numerous failures, which have resulted in grounding of these airframes. Normal operating costs of these two aircraft comprise approximately half of the Marine Corps portion of the FHP. Because of their recent groundings, the Marines under-executed their portion of the FHP budget for first quarter FY 01. (interview with FHP staff member, March 2001)

**ANNUAL COST DEFERMENT METHODS**

There are two annual cost deferment methods: (1) bow-waving and (2) unfilled customer orders (UCOs).

**Bow-Waving**

The primary annual financing mechanism that CNAP uses to sustain flying operations through the fiscal year is called "bow-waving." Bow-waving refers to deferring the cost of something from the current fiscal year to the next fiscal year. CNAP uses this technique with Aviation Depot Level Repair parts (AVDLRs) in order to keep aircraft operating. When a Ready for Issue (RFI) repair part is taken from the "shelf" the bad or broken part is inducted into the depot facility for repair, if the item cannot be fixed at the Aviation Intermediate Maintenance activity (AIMD). To prevent the charge in the current fiscal year, the AIMDs will retain the AVDLRs until the next fiscal year. This cash flow technique enables fleet units to continue flying when the budget would have been exhausted if the AVDLRs were processed. However, the practice of bow-waving ensures further under-funding in the future because the costs of the bow-wave are not part of OP-20 pricing. Table 2 shows the cost of AVDLRs that were bow-waved in the past four fiscal years.

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**Table 2.—Bow-waved amounts.** (interview with FHP staff member, March 2001)

| FISCAL YEAR | AMOUNT |
|---|---|
| 97 | $65M |
| 98 | $26M |
| 99 | $55.5M |
| 00 | $0.00 |

**Unfilled Customer Orders (UCOs)**

Another cash flow transaction CNAP has used to get through the execution year in is Unfilled Customer Orders (UCOs). UCOs are a cash flow generating strategy in which fleet operating units administratively cancel or de-obligate outstanding requisitions for AVDLRs to recover the cash as a means to pay for more urgent requirements. This strategy is a mechanism used by CNAP to prevent over-obligation of budgeted FHP funds. Under the agreement between CNAP and Navy Inventory Control Point (NAVICP), all requisitions cancelled must be re-ordered within 45 days after the new fiscal year. (Keating and Paulk, 1998)

**BATHTUB EFFECT**

As CNAP managers have struggled to maintain the viability of FHP budgets, they have been forced to reduce funding allotted to squadrons in the Inter-Deployment Training Cycle (IDTC). The resultant reduction of flying hours and PMR for squadrons has created what CNAP managers refer to as the bathtub effect (Figure 4). The height of operating tempo occurs during deployment for Naval forces. As units return to the United States from overseas deployments, some crews rotate and new replacement personnel arrive. With these rotations, there is an expected decrease in the level of flying from the high tempo of deployment. Readiness levels decrease as crews are dismantled and the process of training for the next deployment begins. (interview with FHP staff member, January 2001)

To stay safe and proficient, flying still occurs, but at reduced levels from deployment. As funding levels have been reduced in recent years, the easiest target for flying reduction has become the "home guard" squadrons. The trend in recent years is to reduce IDTC squadrons to lower levels of PMR.

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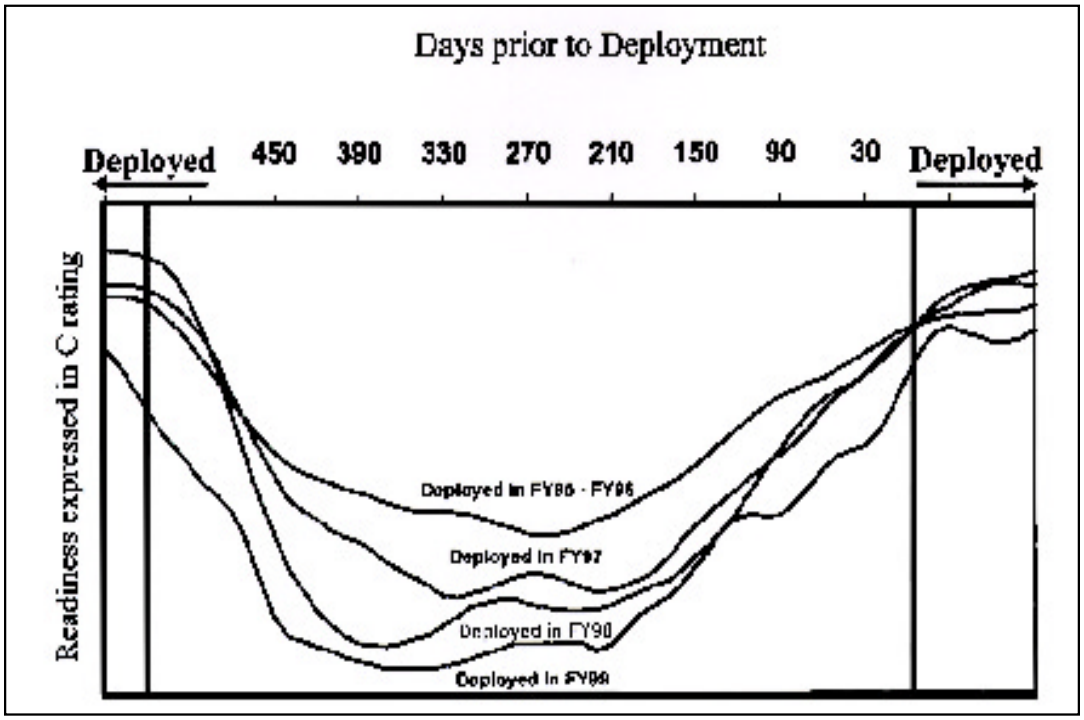


**Figure 4.—Bathtub effect.**

Although difficult to quantify for the entire force, CNAP managers reported aggregate PMR execution rates of 57-60 percent for carrier aviation squadrons from the month of return from deployment through the tenth month prior to deployment for fiscal years 1998 to 2000. For FY 01, funding for this same time period in the IDTC has been reduced to 53 percent PMR. (interview with FHP staff member, January 2001)

As the depth of the bathtub increases, proficiency atrophies as pilots fly fewer hours per month. The real concern of planners is that there is a steeper ramp going on deployment coming out of IDTC. As aircrews are faced with increasing intensity and more challenging flying during deployment, their skills may not match the level of flying required because of the reduction in flying hours throughout the IDTC.

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## SUMMARY

Table 3 summarizes key final amounts for the fiscal years that have been researched. This table is not intended to serve as a balance sheet, but reflects some of the important amounts identified. Numbers are approximate and reflect information provided to the author from multiple sources.

**Table 3.—Summary of final key amounts for FY 98, 99, and 00 (millions of dollars).**

| | FY 98 | FY 99 | FY 00 |
|---|---|---|---|
| Initial Controls from CINCPACFLT | $1,380 | $1,290 | $1,289 |
| CINCPACFLT Withholds (Y2K, IT-21, others) | $(27) | $(53) | $(27) |
| CNAP Reprogramming to Underfunded Programs (Staff OPTAR, Ranges, TAD, Simulators) | $(37) | $(30) | $(21) |
| Contingency Funds | $84 | $87 | $65 |
| Reprogramming in, CNO Reserve, Supplementals | $25 | $68 | $63 |
| Total Funds Spent on FHP | $1,388 | $1,343 | $1,393 |
| Previous Year's Bow Wave | $65 | $26 | $56 |
| FHP Funds Spent on Critical Unfundeds (Aircraft Life Cycle Costs) | $16 | $53 | $32 |
| PMR Achieved | $79.40 | $80.00 | $76.60 |

## CONCLUSIONS

Recognizing that there are insufficient funds to properly execute the annual FHP budget, CNAP managers initially request a higher percentage of annual funding for the first quarter in CINCPACFLT's funding phase. As expenditures outstrip resources in different fund codes, reprogramming money and requesting that CINCPACFLT advance funds from future quarters enables fiscally balancing each account. CNAP managers reduce operating tempo for units in the Inter-Deployment Training Cycle (IDTC) and reduce expenses on the margins by leading initiatives to cut maintenance and supply costs.

CNAP managers use cost deferment methods in order to make it through the year avoiding ADA violations. These procedures include bow waving AVDLRs to future fiscal years and using Unfilled Customer Orders (UCOs). Throughout the process, CNAP managers monitor expenditure rates and continually communicate shortfalls. By articulating their fiscal position up the chain of command, the hope is that funding relief will be provided toward the end of the year.

Each year the POM process produces the OP-20 budgeting document that attempts to match resources to requirements and is used as the initial starting point to determine the FHP budget. In budget execution many things happen to the dollars that were originally in the OP-20 budget. When the dollars available to execute the FHP reach the managers at CNAP, some of the money that was originally in the budget is being used for other programs.

The overall budgeting system does not recognize valid bills from many different programs and fund them; therefore the FHP (CNAP's only real source of discretionary money) is raided every year. The process forces CNAP managers to creatively finance throughout the year and hope for relief at the end

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of the year. The resultant dollar amount to execute the FHP constitutes an overly restrictive control on CNAP managers. It adds transaction costs to CNAP managers in the form of continually trying to communicate shortfalls, second guessing true Fleet execution, and inventing methods of creative financing, including the risk of violating the ADA. The challenges of budget execution documented in this research are difficult enough without the additional restrictions of excessive control placed upon CNAP's FHP managers.

FHP budget development and execution trends continue in FY 01. CNAP managers estimated a $235 million shortfall and hoped to receive a Defense Supplemental Appropriation late in the summer FY 01. (interview with FHP staff member, April 2001) As in the three years covered in this study, large funding shortfalls frustrated FHP managers' efforts in developing a coherent plan to execute the program.

Instead of providing budget relief at the end of the year, proper initial funding of all programs within Naval Aviation, or the use of some alternative method of funding flying hours would alleviate the uncertainties and system stress throughout the year, especially in third and fourth quarter execution. With such substantial reform, CNAP managers will be able to focus on properly supporting fleet requirements, while eliminating the need of creative and risky financing. Until restrictive controls are removed, CNAP managers will not meet readiness requirements, they will have to consider shutting down non-deployed squadrons for extended periods of time, and they will risk ADA violations. ♦

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